27 March 2020

Staying the course

While it can be hard to stay in the market when share prices plummet, now is not the time to panic.

The COVID-19 (coronavirus) pandemic has triggered a share market crash, in Australia and internationally. Since 31 December2019, when the first cases of the new virus were reported in China's Hubei province, the disease has spread rapidly to Europe, UK, North America, Asia, the Middle East and Australia.

We're now seeing extraordinary disruption to economies and societies, at home and abroad, and the effect on share markets has been substantial. They've suffered major falls across all regions, as supply chains are disrupted and business activity is restricted. It's possible they'll remain low or fall further as the shutdown measures put a squeeze on companies' turnover and profits and damage consumer confidence. The Australian dollar has also fallen significantly against the benchmark US dollar.

At times like these, it can be easy to make knee-jerk decisions, but rash short-term thinking can often be counter-productive.

Fear-driven decision making

Seeing the value of your investments go down is never a pleasant feeling. Given the fear and uncertainty COVID-19 has caused in the community, many investors may feel panicked about the state of their portfolio. Cutting your losses and moving your holdings into cash may seem a tempting option at this time. The emotion is understandable but allowing it to drive your decision making may not serve you well in the longer term.

Different assets classes produce different returns, at different times in the market cycle. A diversified investment strategy is often the surest way to grow the value of your portfolio over the long term.

You can also further diversify across fund managers and investment styles so your portfolio is less vulnerable to a falling market - different investment styles always perform differently throughout the investment cycle.

Moving your money into cash now, when the share market is so volatile, may only crystallise any losses and could leave you with insufficient funds to meet your long-term financial goals, such as having enough to retire on. And being out of the market may mean that you miss out when the market starts to recover again. Timing the market is almost impossible.

Legendary investor Warren Buffett is well known for his investment philosophy and strategy of holding the course when markets fall – and he's one of the world's most successful investors. One of his famous quotes is "our favourite holding period is forever".

Dramatically changing course

While COVID-19 represents new territory for investors and businesses, chances are the market will stabilise in the medium to long term, that is, over the next three to five years. History has shown time and again that share markets have the ability to recover from significant market events and be a source of returns in the long term.

Reminding yourself of your long-term goals can be a good way to counter any sense of panic the current situation may have generated around your personal finances and investments.

Going it alone

Now isn't the time to go it alone. Your financial adviser can help you to identify your financial goals, your appetite for risk and your cash flow requirements. They're also well placed to talk through any concerns you may have, as you navigate the continuing uncertainty the next few months have in store for all of us, financially and personally.

Financial advice is critical in uncertain economic times.

Dan Farmer

Chief Investment Officer, IOOF

INV-2267 (52638) 0320